Always do sanity checks

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How to spot your mistakes

- When building a model, there's a high chance that you will make some mistakes

  There are two main types of errors:

- **Logical error - you make an assumption that is not realistic**
- **Technical error - you put in the wrong formulas or link to the wrong cells**

- In order to spot logical errors, you have to do sanity checks

- Pause and ask yourself is what you assumed will happen is really possible, and adjust the numbers accordingly

- Sanity checks can be done before or after building the model

- In order to spot technical errors, you have to look at the numbers in your model and see if they are similar to what you would expect - if not, check the formulas you used to get to that result

- Do error checking of any intermediate and final results in your model

See you next lecture!